

**Financial Statements**

**West Michigan Community  
Mental Health System**

**September 30, 2005**



# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>West Michigan Comm. Mental Health Author.</b>	County <b>Oceana</b>
Audit Date <b>9/30/05</b>	Opinion Date <b>11/29/05</b>	Date Accountant Report Submitted to State: <b>3/27/06</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>ROSLUND, PRESTAGE AND COMPANY, PC</b>			
Street Address <b>308 GRATIOT AVENUE</b>		City <b>ALMA</b>	State <b>MI</b>
Accountant Signature <i>Roslund, Prestage &amp; Company, P.C.</i>		ZIP <b>48801</b>	Date <b>3/27/06</b>

West Michigan Community Mental Health System  
Table of Contents  
September 30, 2005

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**Independent Auditor's Report**

**Management's Discussion and Analysis** I-V

**Basic Financial Statements:**

Government-Wide Financial Statements:

Statement of Net Assets 1

Statement of Activities 2

Fund Financial Statements:

Balance Sheet – Governmental Funds 3

Reconciliation of Fund Balances on the Balance Sheet for  
Governmental Funds to Net Assets of Governmental  
Activities on the Statement of Net Assets 4

Statement of Revenues, Expenditures and Changes in Fund  
Balances – Governmental Funds 5-6

Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances of Governmental Funds to the  
Statement of Activities 7

Statement of Net Assets – Proprietary Funds 8

Statement of Revenues, Expenses and Changes in Fund  
Net Assets – Proprietary Funds 9

Statement of Cash Flows – Proprietary Funds 10

Notes to the Financial Statements 11-28

**Required Supplemental Information:**

Budgetary Comparison Schedules 29-30

**Other Supplemental Information:**

Statement of Personnel Expenditures 31

Statement of Operating Expenditures 32

Government Auditing Standards Report 33-34



## INDEPENDENT AUDITOR'S REPORT

West Michigan Community Mental Health System  
Ludington, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of West Michigan Community Mental Health System (the Authority), as of and for the year ended September 30, 2005, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 29, 2005 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages I-V, and budgetary comparison information on pages 29-30, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Roslund, Prestage & Company, P.C.*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

November 29, 2005

**MANAGEMENT DISCUSSION  
AND ANALYSIS**

**West Michigan Community Mental Health System**  
**Financial Statements for the Fiscal Year Ended September 30, 2005**  
**Management's Discussion and Analysis**

The management of West Michigan Community Mental Health System (WMCMHS) presents the following discussion and analysis of the financial activities during the fiscal year 2004/2005. This discussion and analysis is provided to introduce the basic financial statements of the past year and to provide the reader information to help assess whether the financial position has improved or deteriorated as a result of the year's operation. Please read this section in conjunction with the auditor's report, our financial statements, notes to the financial statements, and supplemental information taken as a whole to get a comprehensive understanding of WMCMHS' financial position.

Fiscal year 2002/2003 began a new funding mechanism for WMCMHS. Under the new contractual requirements issued by the Michigan Department of Community Health (MDCH), WMCMHS no longer received its Medicaid funding directly from the state. Instead, Medicaid funding for mental health service began to be paid to regional Pre-paid Inpatient Health Plan (PIHP). WMCMHS, under an affiliation agreement with Northern Lakes Community Mental Health Authority (formally North Central and Great Lakes Community Mental Health Authorities) became a member of the Northwest Community Mental Health Affiliation serving a nine county region. The significance of this funding arrangement and the impact on the provision of services to the residents of Lake, Mason and Oceana Counties has little noticeable impact on our service delivery system. WMCMHS continues to receive 35.19% of our revenue directly from MDCH and other sources for non-Medicaid services provided to Lake, Mason, and Oceana county residents.

Basic Financial Statement

Two types of financial statement are provided: **Government – wide Statements** and **Fund Statements**.

**Government – wide financial statements** are designed to present the organization's finances in a layout similar to that of a private sector business. They consist of a Statement of Net Assets (providing historical balance sheet information), which shows the difference between assets and liabilities; and a Statement of Activities (providing historical income statement information), which shows revenues and expenses and the change in net assets from the previous year. Information presented in these statements is on the full accrual basis of accounting.

**West Michigan Community Mental Health System**  
**Financial Statements for the Fiscal Year Ended September 30, 2005**  
**Management's Discussion and Analysis**

**Fund financial statements** report information using the modified accrual basis of accounting. They offer a series of statements that focus on the major governmental funds. For WMCMHS, the major funds consist of the general fund and the proprietary fund. The general fund statements identify activities of our day-to-day operations. The proprietary fund identifies funds set aside in our Internal Service Fund for risk management. Reconciliations are also offered between the Fund Financial Statements and the Government-wide Statements.

**Comparison with Prior Year**

West Michigan CMH System's total net assets show an increase for fiscal year 2004/2005 as compared to the prior year, restated in a comparative format, from \$5,981,275 to \$6,235,294. Total assets increased by 3.7 percent and total liabilities increased by 2.3 percent. Unreserved net assets changed from \$2,808,037 to \$3,111,464. This is an increase of \$303,427 to those funds able to finance general operations without restrictions.

**Net Assets**

	<b>Governmental Activities</b>	
	<b>2005</b>	<b>2004</b>
Current and Other Assets	\$7,987,814	\$7,563,929
Capital Assets	374,534	496,398
Total Assets	8,362,348	8,060,327
Current Liabilities	1,475,173	1,496,953
Non-Current Liabilities	651,881	582,099
Total Liabilities	2,127,054	2,079,052
Net Assets:		
Invested in capital assets, net of debt	374,534	496,398
Restricted	2,749,296	2,676,840
Unrestricted (deficit)	3,111,464	2,808,037
Total Net Assets	\$6,235,294	\$5,981,275



**West Michigan Community Mental Health System**  
**Financial Statements for the Fiscal Year Ended September 30, 2005**  
**Management's Discussion and Analysis**

**Analysis of Overall Financial Position**

WMCMHS continues to improve our financial standing with an increase of \$424,920 to net assets. While there was some fluctuation among funding sources and expense categories overall revenue and expenditures remain relatively unchanged. The table below illustrates net asset activity compared with last fiscal year.

**Changes in Net Assets**

	<b>Governmental Activities</b>	
	<b>2005</b>	<b>2004</b>
<b>Revenues</b>		
DCH	\$3,776,110	\$3,802,884
Medicaid – Subcontract with Northern Lakes CMH	9,002,587	8,872,254
Grant, Contracts & Other Revenues	439,775	671,365
Local	672,005	539,196
<b>Total Revenues</b>	<b>13,890,477</b>	<b>13,885,699</b>
<b>Expense</b>		
Personnel	7,220,556	7,275,772
Capital Outlay	38,592	150,000
Other Expenses	6,194,128	6,031,552
Debt Payments - Principal	4,104	633
Debt Payments - Interest	8,673	1,497
<b>Total Expense</b>	<b>13,466,053</b>	<b>13,459,454</b>
<b>Revenue Over/(Under) Expense</b>	<b>424,424</b>	<b>426,245</b>
<b>Prior Period Adjustment</b>	<b>496</b>	<b>-</b>
<b>Increase (decrease) in Net Assets</b>	<b>\$424,920</b>	<b>\$426,245</b>

**Capital Assets and Long-Term Debt**

Capital Assets increased by \$38,592 with the purchase of replacement computer equipment and a vehicle. Long-term Debt was reduced by principal payments of \$4,104.

**West Michigan Community Mental Health System  
Financial Statements for the Fiscal Year Ended September 30, 2005  
Management's Discussion and Analysis**

Analysis of Significant Budget Variations

Amendments to fiscal year 2004/2005 budget show no significant changes to total expenditures, with an original budget of \$13,903,791 and a final budget increased to \$13,945,887. The amendment consisted of several line item variations.

The most significant change was shifting dollars from salary to contracts and inpatient services to meet client need. Other changes included transferring budgeted contingency to offset variable cost overruns.

The revenue budget had no noteworthy changes. Minor modifications were made to reduce grants and contracts and increase local revenues.

Currently Known Information Affecting the Future

Funding

Michigan Department of Community Health (MDCH) re-based Medicaid funding statewide. The re-basing resulted in increased Medicaid dollars available to the Northwest affiliation effective October 1, 2005. This increase moves our affiliation closer to the state average of dollars received per Medicaid enrollee.

Although our three county area will receive additional Medicaid funding, there is concern about future General Fund allocations due to the state's weak economic condition.

While the financial position of the Authority is currently healthy, the economic outlook will continue to put significant pressure on our ability to serve and support our consumers. Should significant reductions occur in our General Fund allocation, WMCMHS management will analyze the service delivery system, looking at alternatives such as different benefit packages depending on funding source.

**West Michigan Community Mental Health System  
Financial Statements for the Fiscal Year Ended September 30, 2005  
Management's Discussion and Analysis**

Audit

The Department of Community Health Audit Division initially requested \$3,368,121 from WMCMHS for compliance audit findings for FY 1998/1999 and 1999/2000. The main issues of contention were the building reserve, depreciation of capital assets, Internal Service Fund (risk reserve), and payment for a vacant residential bed.

In December 2005, WMCMHS reached agreement with the Department. Through this agreement the vacant bed and depreciation issues were resolved resulting in reducing the net effect of these two issues to \$24,902 from the original \$1,064,927 payment request.

The Department agreed with the establishment of the Internal Service Fund, which allowed WMCMHS to transfer the Medicaid portion of \$621,204 to the PIHP to provide a reserve for the risk associated with the Medicaid contract they hold with MDCH. WMCMHS was allowed to maintain the General Fund portion of the Internal Service Fund. The building reserve funds were returned to Michigan Department of Community Health, as West Michigan CMH no longer had a need for the funds.

The net amount paid to the department as a result of the agreement was \$1,478,480. The agreement resulted in no significant effect on WMCMHS Unreserved Fund Balance.

Home Purchase

In 2005, a group home lease came up for renewal. WMCMHS management assessed the future need and lease or purchase options. The Authority concluded that there was residential placement need for the home and to purchase the property.

On October 13, 2005 WMCMHS borrowed \$131,000 from Huntington Mortgage to finance the purchase of the building. The interest rate is 3.89% with 59 payments of \$790.15, with a final payment of \$107,997.37 on October 13, 2010.

**GOVERNMENT-WIDE  
FINANCIAL STATEMENTS**

WEST MICHIGAN COMMUNITY MENTAL HEALTH SYSTEM  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2005 AND 2004

	Governmental Activities	
	2005	2004
<b>Assets</b>		
Current Assets		
Cash and Cash Equivalents - Unrestricted	\$5,569,905	\$5,087,280
Due from Other Governmental Units	95,445	141,063
Prepaid Expenses	69,056	176,513
Total Current Assets	5,734,406	5,404,856
Noncurrent Assets		
Restricted Investments	2,253,408	2,159,073
Capital Assets - Depreciable, Net	374,534	496,398
Total Noncurrent Assets	2,627,942	2,655,471
Total Assets	8,362,348	8,060,327
<b>Liabilities</b>		
Current Liabilities		
Accounts Payable	800,649	537,740
Deferred Revenue	219,992	169,098
Due to Other Governmental Units	320,750	144,448
Accrued Liabilities	11,705	6,805
Retirement Payable	13,712	39,429
Post-Employment Benefits Payable	3,358	9,139
Accrued Wages and Other Payroll Liabilities	100,655	586,190
Current Portion of Notes Payable	4,352	4,104
Noncurrent Liabilities		
Notes Payable	140,911	145,263
Compensated Absences	510,970	436,836
Total Liabilities	2,127,054	2,079,052
<b>Net Assets</b>		
Invested in Capital Assets	374,534	496,398
Reserved for Risk Management	950,752	929,759
Reserved for Future Capital Outlay	1,798,544	1,747,081
Unreserved and Undesignated	3,111,464	2,808,037
Total Net Assets	\$6,235,294	\$5,981,275

The notes to the financial statements are an integral part of this statement.

WEST MICHIGAN COMMUNITY MENTAL HEALTH SYSTEM  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2005, WITH COMPARATIVE DATA

Functions	Expenses	Program Revenues		Net (Expense) Revenue and Changes Net Assets	2004
		Charges for Services	Operating Grants and Contributions		
Governmental Activities					
Health & Welfare - Mental Health	<u>\$13,641,020</u>	<u>\$9,184,872</u>	<u>\$4,521,185</u>	\$65,037	\$78,966
General Revenues					
Unrestricted Investment Earnings				164,720	72,400
Restricted Investment Earnings				<u>20,993</u>	<u>10,603</u>
Total General Revenues and Contributions				<u>185,713</u>	<u>83,003</u>
Change in Net Assets				250,750	161,969
Net Assets - October 1				5,981,275	5,819,306
Prior Period Adjustment				<u>3,269</u>	-
Net Assets - September 30				<u>\$6,235,294</u>	<u>\$5,981,275</u>

The notes to the financial statements are an integral part of this statement.

***FUND FINANCIAL STATEMENTS***

WEST MICHIGAN COMMUNITY MENTAL HEALTH SYSTEM  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2005 AND 2004

	General Fund	
	2005	2004
<b>Assets</b>		
Cash and Cash Equivalents - Unrestricted	\$5,569,905	\$5,087,280
Cash and Cash Equivalents - Restricted	2,253,408	2,159,073
Due from Other Governmental Units	95,445	141,063
Prepaid Expenses	69,056	176,513
Total Assets	<u>\$7,987,814</u>	<u>\$7,563,929</u>
<b>Liabilities</b>		
Accounts Payable	\$800,649	\$537,740
Deferred Revenue	219,992	169,098
Due to Other Governmental Units	320,750	144,448
Due to Other Funds	950,752	929,759
Accrued Liabilities	11,705	6,805
Retirement Payable	13,712	39,429
Post-Employment Benefits Payable	3,358	9,139
Accrued Wages and Other Payroll Liabilities	100,655	586,190
Total Liabilities	<u>2,421,573</u>	<u>2,422,608</u>
<b>Fund Balance</b>		
Reserved for Prepaid Expenses	69,056	176,513
Reserved for Future Capital Outlay	1,798,544	1,747,081
Unreserved and Undesignated	3,698,641	3,217,727
Total Fund Balance	<u>5,566,241</u>	<u>5,141,321</u>
Total Liabilities and Fund Balance	<u>\$7,987,814</u>	<u>\$7,563,929</u>

The notes to the financial statements are an integral part of this statement.



WEST MICHIGAN COMMUNITY MENTAL HEALTH SYSTEM  
RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS  
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS  
FOR THE YEAR ENDED SEPTEMBER 30, 2005

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Total fund balance - governmental funds	\$5,566,241
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: capital assets	1,392,855
Deduct: accumulated depreciation	(1,018,321)
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	
Add: net assets of governmental activities accounted for in the internal service fund	950,752
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
Deduct: loans payable	(145,263)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Deduct: compensated absences	<u>(510,970)</u>
Net assets of governmental activities	<u><u>\$6,235,294</u></u>

The notes to the financial statements are an integral part of this statement.

WEST MICHIGAN COMMUNITY MENTAL HEALTH SYSTEM  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2005 AND 2004

Revenues	General Fund	
	2005	2004
State Grants		
Department of Community Health Contract	\$3,494,925	\$3,435,748
Adult Benefit Waiver	270,248	355,527
MI Child	10,937	11,609
Title XX	4,047	4,047
RICC	2,867	2,022
Supportive Housing	5,572	-
Emergency Shelter	4,424	-
Respite Block Grant	4,016	4,599
Total State Grants	3,797,036	3,813,552
Federal Grants		
Wraparound Grant	65,715	70,873
Strong Families / Safe Children	36,208	37,100
Transportation Grant	15,714	47,143
TBRA	35,431	47,012
PAS / ARR Grant	84,379	104,100
Total Federal Grants	237,447	306,228
Contributions - Local Units		
County Appropriations	325,000	325,000
Charges for Services		
Medicaid - Subcontract with Northern Lakes CMH	8,912,940	8,357,291
Medicaid - Other	89,647	514,963
Client and Third Party Pay	182,285	141,796
Total Charges for Services	9,184,872	9,014,050
Interest and Rents		
Interest	164,720	72,400
Other Revenue		
Proceeds from Sale of Assets	19,700	34,066
Proceeds from Loan	-	150,000
Sheltered Workshop	43,798	36,694
Oceana ISD	12,000	-
Mason / Lake ISD	52,153	46,094
Miscellaneous	53,751	87,615
Total Other Revenue	181,402	354,469
Total Revenues	13,890,477	13,885,699

The notes to the financial statements are an integral part of this statement.

WEST MICHIGAN COMMUNITY MENTAL HEALTH SYSTEM  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2005 AND 2004

Expenditures	General Fund	
	2005	2004
Health & Welfare - Mental Health		
Personnel Costs	\$7,220,556	\$7,275,772
Operating Expenditures	6,194,128	6,031,552
Capital Outlay	38,592	150,000
Debt Payments - Principal	4,104	633
Debt Payments - Interest	8,673	1,497
Total Expenditures	13,466,053	13,459,454
Revenues Over (Under) Expenditures	424,424	426,245
Fund Balance, October 1	5,141,321	4,715,076
Prior Period Adjustment	496	-
Fund Balance, September 30	<u>\$5,566,241</u>	<u>\$5,141,321</u>

The notes to the financial statements are an integral part of this statement.

WEST MICHIGAN COMMUNITY MENTAL HEALTH SYSTEM  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2005

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Net change in fund balances - total governmental funds	\$424,424
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures and the proceeds from loans to finance capital purchases as revenue. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense and the loan proceeds are recorded as a liability.	
Add: capital outlay	38,592
Deduct: depreciation expense	(147,954)
Payment of principal on long-term debt is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	
Add: Principal paid on notes payable	4,104
Sales proceeds from the disposal of capital assets are recorded as revenue in the governmental funds. However, in the statement of activities they are netted against the basis in the disposed capital assets resulting in a gain or loss.	
Deduct: Proceeds from disposal of capital assets	(19,700)
Add: Gain on disposal of capital assets	4,425
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The net revenue (expense) of the fund attributable to those funds is reported with governmental activities.	
Add: interest income from governmental internal service fund	20,993
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Deduct: increase in accrual for compensated absences	(74,134)
Change in net assets of governmental activities	<u>\$250,750</u>

The notes to the financial statements are an integral part of this statement.

WEST MICHIGAN COMMUNITY MENTAL HEALTH SYSTEM  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2005 AND 2004

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		Internal Service Funds	
		2005	2004
<b>Assets</b>			
	Due from Other Funds	<u>\$950,752</u>	<u>\$929,759</u>
<b>Net Assets</b>			
	Restricted	<u>\$950,752</u>	<u>\$929,759</u>

The notes to the financial statements are an integral part of this statement.

WEST MICHIGAN COMMUNITY MENTAL HEALTH SYSTEM  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2005 AND 2004

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	Internal Service Funds	
	2005	2004
Non-Operating Revenues (Expense)		
Interest Income	\$20,993	\$10,603
Change In Net Assets	20,993	10,603
Net Assets, Beginning of Year	929,759	919,156
Net Assets, End of Year	<u>\$950,752</u>	<u>\$929,759</u>

The notes to the financial statements are an integral part of this statement.

WEST MICHIGAN COMMUNITY MENTAL HEALTH SYSTEM  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2005 AND 2004

	Internal Service Fund	
	2005	2004
Cash Flows from Operating Activities		
Adjustments to Reconcile Net Income		
to Net Cash Provided by Operating Activities:		
(Increase) Decrease In:		
Due from Other Funds	(\$20,993)	(\$10,603)
Net Cash Provided (Used) From Operating Activities	(20,993)	(10,603)
Cash Flows from Investing Activities		
Interest Income	20,993	10,603
Net Change in Cash and Cash Equivalents	-	-
Cash and Cash Equivalents, Beginning Of Year	-	-
Cash and Cash Equivalents, End Of Year	-	-
Reconciliation of Operating Income To Net Cash Provided		
By (Used for) Operating Activities:		
Operating Income (Loss)	NA	NA

The notes to the financial statements are an integral part of this statement.

***NOTES TO THE FINANCIAL STATEMENTS***



## **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of West Michigan Community Mental Health System (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Authority.

### **Reporting Entity**

The Authority operates under the provisions of Act 258 – Public Acts of 1974 (the Michigan Mental Health Code), as amended. The Authority arranges for or provides supports and services for persons with developmental disability, adults with severe mental illness, children with serious emotional disturbance, and individuals with addictive disorder and substance abuse. These supports and services are made available to residents of the Counties of Lake, Oceana and Mason who meet eligibility and other criteria. As the community mental health services providers for these Counties, the Authority also serves to represent community members, assuring local access, organizing and integrating the provision of services, coordinating care, implementing public policy, ensuring interagency collaboration, and preserving public interest.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Authority's reporting entity, and which organizations are legally separate, component units of the Authority. Based on the application of the criteria, the Authority does not contain any component units.

### **Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the activities of the Authority. *Governmental activities* normally are supported by intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

West Michigan Community Mental Health System  
Notes To Financial Statements

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Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

### **Measurement Focus, Basis of Accounting and Basis of Presentation**

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

An exception to the "60 day" rule is the recognition of certain patient fee revenues and the related receivables. The Authority has elected to recognize these revenues on the cash basis of accounting, which is in compliance with the Department of Community Health's revenue recognition formula. The difference between the cash basis of accounting and modified accrual basis of accounting for these revenues are not material to the financial statements.

Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at September 30, 2005, has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

West Michigan Community Mental Health System  
Notes To Financial Statements

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Proprietary Fund Financial Statements – The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The financial activities of the Authority that are reported in the accompanying financial statements have been classified into the following major governmental and proprietary funds.

Governmental Funds

**General Fund** – This fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.

Proprietary Funds

**Internal Service Fund** - This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

**Comparative Data**

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Authority's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

**Budgetary Data**

Budgets are adopted by the Authority for all governmental funds. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is also adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

### **Cash and Cash Equivalents**

The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

Michigan Compiled Laws, Section 129.91, authorized the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. The Authority's deposits are in accordance with statutory authority.

### **Receivables and Payables between Funds**

Activity between funds that are representative of lending / borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e. the current portion of interfund loans) or "advances to / from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due / to other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

### **Receivables**

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the Michigan Department of Community Health and the State of Michigan.

### **Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

West Michigan Community Mental Health System  
Notes To Financial Statements

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**Inventories**

The Authority does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

**Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

The Authority does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

A salvage value equal to 15% of the original cost has been established for all vehicles.

Capital assets of the Authority are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	20
Equipment and Furnishings	5 – 20
Computers and Software	3 – 5
Vehicles	4

### **Restricted Assets**

Cash has been restricted for future payment of the compensated absences liability as well as for future improvements and/or acquisition of major capital assets. These restricted assets are held in separate cash accounts with local financial institutions.

### **Governmental Fund – Fund Balance Reserves and Designations**

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former. Reserves for Medicaid Savings, compensated absences and post-employment benefits are examples of the latter.

### **Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

### **Inpatient / Residential Cost Liability**

The amount recorded for inpatient/residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility.

The Authority is not billed for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60-day period after year-end. Also, the actual cost may vary from the estimated due to reimbursements from third party payers that are applied to the total cost before the billings are sent to the Authority.

### **Deferred Revenue**

Deferred revenues arise when the Authority receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

West Michigan Community Mental Health System  
Notes To Financial Statements

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**Grants**

Grants from the Department of Community Health (DCH) and other governmental units are recorded as revenues when the actual expenditures financed by the grant are incurred. Excess funding is treated as deferred until used or until retrieved by the source.

**NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information**

Annual budgets are adopted at the function level and on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The Authority does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

**B. Excess of Expenditures over Appropriations**

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

**NOTE 3. DETAIL NOTES**

**Cash and Cash Equivalents**

At September 30<sup>th</sup>, the carrying amount of the Authority's cash and cash equivalents are as follows:

<b>Cash &amp; Cash Equivalents</b>	<b>2005</b>	<b>2004</b>
Petty Cash	\$565	\$565
Checking, Savings, And Money Market Accounts	857,101	492,232
Certificates of Deposit	4,143,420	3,541,621
Certificates of Deposit – Restricted	1,798,544	1,747,081
Commercial Paper	568,820	1,052,862
Municipal Investment Fund – Restricted	454,863	411,992
<b>Totals</b>	<b>\$7,823,313</b>	<b>\$7,246,353</b>

West Michigan Community Mental Health System  
Notes To Financial Statements

The bank balance at year end was \$7,944,189, of which \$400,000 was covered by federal depository insurance and \$7,544,189 was uninsured and uncollateralized.

The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits government funds and accesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

**Restricted Cash and Cash Equivalents**

The municipal investment fund in the amount of \$454,863 is restricted to payment of compensated absences as they come due. The certificate of deposit in the amount of \$1,798,544 is restricted for future improvements and/or acquisition of major capital assets.

**Interfund Receivables and Payables**

Interfund receivables and payables as of September 30<sup>th</sup>, are as follows:

<b>Fund</b>	<b>Due From</b>	<b>Due To</b>
General Fund	-	\$950,752
Internal Service	\$950,752	-

**Due from Other Governmental Units**

Due from other governmental units as of September 30<sup>th</sup>, consists of the following:

<b>Due From</b>	<b>2005</b>	<b>2004</b>
State of Michigan – Medicaid	\$54,441	\$56,172
State of Michigan – OBRA	3,797	5,616
State of Michigan – Transportation Grant	-	17,045
State of Michigan – FIA	3,710	5,915
State of Michigan – Wraparound	20,578	32,745
State of Michigan – Tenant Based Housing Assist. Grant	3,162	6,805
State of Michigan – Respite	2,160	2,460
Emergency Shelter Grant	860	-
Supportive Housing	3,229	-
Mason & Lake ISD	3,508	3,471
County Appropriations	-	10,834
<b>Totals</b>	<b>\$95,445</b>	<b>\$141,063</b>



West Michigan Community Mental Health System  
Notes To Financial Statements

### Prepaid Expenses

Prepaid expenses represent payments for the following expenses that will benefit future periods:

Prepaid	2005	2004
Insurance	\$53,952	\$161,524
Dues	6,771	6,656
Rent	8,333	8,333
Totals	\$69,056	\$176,513

### Capital Assets

Depreciable capital asset activity for the year ended September 30, 2005, is as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Buildings	\$150,000	-	-	\$150,000
Equipment and Furnishings	387,294	-	(\$15,290)	372,004
Computers and Software	305,194	\$14,097	-	319,291
Vehicles	628,900	24,495	(101,835)	551,560
Sub-total	1,471,388	38,592	(117,125)	1,392,855
Accumulated Depreciation	(974,990)	(147,954)	101,850	(1,021,094)
Prior Period Adjustment	-	2,773	-	2,773
Totals	\$496,398	(\$106,589)	(\$15,275)	\$374,534

### Deferred Revenue

The amount reported as deferred revenue represents the 5% carry forward allowance for the general fund portion of the Department of Community health's authorization as well as other revenues received in advance of the period earned as follows:

Deferred Revenue	2005	2004
General Fund Carry Forward	\$197,492	\$168,598
Other	22,500	500
Totals	\$219,992	\$169,098

West Michigan Community Mental Health System  
Notes To Financial Statements

**Due to Other Governmental Units**

Due to other governmental units as of September 30<sup>th</sup> consist of the following:

Due To	2005	2004
State of Michigan – Inpatient/Residential	\$60,599	\$42,796
State of Michigan – Employment Security Comm.	39,554	-
Due to PHP	153,239	23,092
Community Inpatient & Crisis Residential	46,923	78,560
Muskegon County CMH	17,566	-
Other	2,869	-
Totals	\$320,750	\$144,448

**Accrued Liabilities**

This liability represents state and federal income taxes and other amounts withheld from paychecks prior to year end but not remitted until after year end.

**Accrued Wages and Other Payroll Liabilities**

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes and related liabilities.

**Retirement Payable**

This liability represents amounts due to the retirement system based on wages earned as of September 30<sup>th</sup> of each year.

**Post-Employment Benefits Payable**

Prior to the existence of the WCMCHS, the County of Mason provided health insurance for employees of Mason County (including employees of the Mental Health Authority) who retired at age sixty with ten years of service with the County until they reach the age of sixty-five. After the age of sixty-five, retired employees with ten years of service with the County shall have their Medicare supplement paid by the County. When the WCMCHS was created, the employees of the Mason County Mental Health Board became employees of WCMCHS. Therefore, the Authority was required to assume the responsibility to pay the health insurance premiums for the Mason County retirees as stated under the original agreement between the County of Mason and its employees. Therefore, the amount recorded as Post-Employment Benefits Payable represents the estimated liability for these health insurance premiums.

The balance in this liability at September 30, 2005 and 2004 is \$3,358 and \$9,139, respectively.

West Michigan Community Mental Health System  
Notes To Financial Statements

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### Operating Leases

West Michigan Community Mental Health System has entered into various operating leases for the use of real and personal property. Operating leases do not give rise to property rights or lease obligations, and therefore, the results of the lease agreements are not reflected in the financial statements.

The following is a schedule of the future minimum lease payments required under the operating leases that have initial or remaining noncancelable lease terms as of September 30, 2005:

Year Ending September 30 <sup>th</sup>	Amount
2006	\$222,640
2007	160,648
2008	116,146
2009	100,000
2010	100,000
Thereafter	258,333

### Long-Term Debt

#### Compensated Absences

The Authority's policy allows employee's to accumulate paid time off pay and to carry this accumulation into the future. The paid time off pay that was earned but not yet paid as of September 30, 2005 and 2004 was \$510,970 and \$436,836, respectively.

#### Mortgage Payable

On July 13, 2004 the Authority borrowed \$150,000 to finance the purchase of a building. The terms of the loan calls for 119 monthly payments of \$1,065 and a final payment of \$97,459 on July 13, 2014. The interest rate is stated at 5.8%.

The changes in the long-term debt are as follows:

Description of Debt	Beginning Balance	Additions	Reductions	Ending Balance
Mortgage Payable	\$149,367	\$-	\$4,104	\$145,263

West Michigan Community Mental Health System  
Notes To Financial Statements

The annual payment of principle and interest for the next five years (including interest of \$63,995) is as follows:

Year Ended September 30 <sup>th</sup> ,	Principle and Interest Due
2006	\$12,777
2007	12,777
2008	12,777
2009	12,777
2010	12,777
2011 – 2015	145,373

### Prior Period Adjustments

Prior period adjustments shown in the fund level financial statements in this report represent the adjustment to fund balance due to the following:

Adjustment	2005
Cost Settlement Adjustment – 9/04	\$496
Total Increase (Decrease) To Fund Balance	\$496

Prior period adjustments shown in the government-wide level financial statements in this report represent the adjustment to net assets due to the following:

Adjustment	2005
Adjustment to fixed assets	\$2773
Cost Settlement Adjustment – 9/04	496
Total Increase (Decrease) To Fund Balance	\$3,269

### Net Asset / Fund Balance Reserves and Designations

A portion of the fund balance at September 30<sup>th</sup> has been reserved equal to the amount of prepaid expenses, since prepaid expenses do not constitute "available spendable resources."

A portion of net assets / fund balance (\$1,798,544) has been designated by the Authority to be used for future improvements and/or acquisition of major capital assets.

Net assets have been reserved in the amount of \$950,752 for the expected future risk corridor requirements of the Managed Care Specialty Services Program contract.

#### **NOTE 4. OTHER INFORMATION**

##### **Compliance Audits**

All governmental grants are subject to a transactional and compliance audit by the grantors or their representatives. Therefore, an indeterminable contingency exists for expenditures, which may be disallowed by the granting agencies.

##### **Retirement Systems**

###### **MERS – Defined Benefit Plan**

The Authority is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS) administered by the State of Michigan. The system provides for the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty death allowance, duty death allowance, and post-retirement adjustments to plan members and their beneficiaries. The most recent period for which actuarial data was available was for the year ending December 31, 2004.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12(a)), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system.

That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, Michigan 48917-9755.

West Michigan Community Mental Health System  
Notes To Financial Statements

The following table presents information required by GASB Statements Number 25 and 27.

<b>GASB 25 INFORMATION</b>	
<i>Actuarial Accrued Liability:</i>	
Retirees and Beneficiaries Currently Receiving Benefits	\$2,204,326
Terminated Employees Not Yet Receiving Benefits	281,519
Non-Vested terminated Employees	29,256
Current Employees:	
Accumulated Employee Contributions Including Allocated Investment Income	115,962
Employer Financed	1,280,744
Total Actuarial Accrued Liability	3,911,807
Net Assets Available for Benefits at Actuarial Value (market value \$4,360,944)	4,467,634
Unfunded (Overfunded) Actuarial Accrued Liability	(\$555,827)
<b>GASB 27 INFORMATION</b>	
Fiscal Year Beginning	10/01/06
Annual Required Contributions (ARC)	0
Amortization Factor Used – Underfunded Liabilities (28 years)	0.055889
Amortization Factor Used – Underfunded Liabilities (24 years)	0.061616
Amortization Factor Used – Underfunded Liabilities (30 year level \$	0.085453
Amortization Factor Used – Overfunded Liabilities (10 years)	.0119963

Three year trend information as of June 30 follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Over funded) AAL	Unfunded AAL as a Percentage of Annual payroll
2003	\$4,395,004	3,832,779	(\$562,225)	0
2002	4,272,935	3,727,325	(545,610)	0
2001	4,263,207	3,497,427	(765,780)	0

### MERS – Defined Contribution Plan

The Authority entered into an administrative service agreement between The International City Management Association Retirement Corporation ("ICMA") and MERS on December 22, 1998. MERS has entered into an Alliance Agreement with ICMA providing for ICMA to serve as plan administrator for the defined contribution plans of municipalities participating in MERS.

West Michigan Community Mental Health System  
Notes To Financial Statements

The ICMA Retirement Trust (the "Trust") is a common law trust governed by an elected Board of Trustees for the commingled investments of retirement funds held by state and local governmental units for their employees. The ICMA acts as investment advisor to the Trust and has designed, and offers, a series of separate funds for the investment of plan assets.

This plan allows for one year vesting for all participating employees. If an employee was hired before July 15, 2001, employer contributions are 9% of employee wages. If an employee was hired after July 15, 2001, employer contributions are 6% of employee wages. All employees who contribute to the plan receive an addition employer match of 2% of employee wages. Employer contributions to the Trust for the year ended September 30, 2005 and 2004 were \$482,937 and \$497,503, respectively.

Additional information can be obtained by writing to: Executive Director, West Michigan Community Mental Health System, 920 Diana Street, Ludington, Michigan, 49431.

### **Money Purchase Pension Plan**

The Authority has established a pension plan to provide funds for the employee's retirement. The plan is known as the West Michigan Mental Health System Money Purchase Pension Plan and became effective on January 1, 1996 and was amended effective January 1, 1997. This plan is a "qualified" plan, as defined in section 401(a) of the Internal Revenue Code of 1986, as amended. It also qualifies as a "governmental plan", as defined in section 414(d) of the Code.

The plan is funded exclusively through the purchase of annuity contracts from the Variable Annuity Life Insurance Company (VALIC). If permitted by the Employer, annuities from other companies may be offered.

All employees can be eligible to receive Employer contributions (including nonelective contributions) under the Plan except the following: employees covered by social security, board of directors, on-call employees, leased employees, and individuals not on the payroll who are classified as independent contractors. There are no age or service requirements. Eligible employees will be eligible for Employer contributions upon the date that employment begins.

The Authority will make contributions to the Plan equal to 5 percent of compensation (not in excess of the Social Security Taxable Wage Base). The contributions to the plan for the year ended September 30, 2005 and 2004 were \$257,527 and \$258,071, respectively.

Additional information about the plan can be obtained by writing to: Executive Director, West Michigan Community Mental Health System, 920 Diana Street, Ludington, Michigan, 49431.

## **Risk Management**

The Authority is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The Authority participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for auto and general liability, property and crime and vehicle physical damage coverage.

MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

As a member of this pool, the Authority is responsible for paying all losses, including damages, loss adjustment expenses and defense cost, or each occurrence that falls within the member's self-insured retention. If a covered loss exceeds the Authority's limits, all further payments for such loss are the sole obligation of the Authority. If for any reason the Authority's resources available to pay losses are depleted, the payment of all unpaid losses of the Authority is the sole obligation of the Authority.

The Authority's coverage limits include \$15,000,000 for liability, \$1,500,000 for vehicle physical damage, and \$3,515,121 for buildings and personal property. The annual premium paid for the period of January 1, 2005 to January 1, 2006 was \$125,708.

Also, the Authority authorized the establishment of an Internal Service Fund to account for funds to be used to cover the risk of overspending their authorized projected revenues covered by the Managed Care Specialty Services Program (MCSSP) contract.

The MCSSP contract entered into by the Authority provides for the use of Department of Community Health funding for the establishment of an Internal Service Fund that is restricted for use only to meet the expected future risk corridor requirements of the MCSSP contract. Expenditures from the Internal Service Fund will occur when, in any one fiscal year, the Authority finds it necessary to expend more to provide services necessary to carry out the MCSSP contract requirements than revenue provided to the Authority by the contract.



West Michigan Community Mental Health System  
Notes To Financial Statements

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**Compliance Audit**

In June 2001 the Michigan Office of Auditor General issued their report on their performance audit of West Michigan Community Mental Health System (WMCMHS). The audit included an examination of WMCMHS's records and activities for the period October 1, 1998 through September 30, 2000.

In August 2002 The Department of Community Health issued their report on their performance audit of West Michigan Community Mental Health System (WMCMHS). The audit included an examination of WMCMHS's records and activities for the same period - October 1, 1998 through September 30, 2000. As a result of the audit numerous issues have emerged and the Department of Community Health is requesting \$3,368,121 from WMCMHS.

As of September 30, 2005, WMCMHS was progressing through various stages of dispute resolution, administrative appeal, judicial review, and negotiations with the Department. In December of 2005, WMCMHS signed an agreement with the Department regarding the audit findings. Please refer to the Management Discussion and Analysis for more information.

These financial statements do not reflect any contingent liabilities relating to the audit findings, amounts requested, or agreement signed in December.

A complete copy of that report is available by writing to:

West Michigan Community Mental Health System  
920 Diana Street  
Ludington, Michigan 49431

West Michigan Community Mental Health System  
Notes To Financial Statements

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***REQUIRED SUPPLEMENTAL INFORMATION***

***BUDGETARY COMPARISON SCHEDULE***

WEST MICHIGAN COMMUNITY MENTAL HEALTH SYSTEM  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES - BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	Budgeted Amounts		Actual	Variances Between Actual and Final Budget
	Original	Final		
<b>Revenues</b>				
State Grants	\$3,777,440	\$3,777,435	\$3,797,036	\$19,601
Federal Grants				
Wraparound Grant	75,467	50,467	65,715	15,248
Strong Families / Safe Children	51,751	41,756	36,208	(5,548)
Transportation Grant	15,714	15,715	15,714	(1)
TBRA	45,756	35,756	35,431	(325)
PAS / ARR Grant	138,062	88,062	84,379	(3,683)
Total Federal Grants	<u>326,750</u>	<u>231,756</u>	<u>237,447</u>	<u>5,691</u>
Contributions - Local Units				
County Appropriations	<u>325,000</u>	<u>325,000</u>	<u>325,000</u>	<u>-</u>
Charges for Services				
Medicaid - Subcontract with North Central CMH	9,043,086	9,043,085	8,912,940	(130,145)
Medicaid - Other	70,000	70,000	89,647	19,647
Client and Third Party Pay	<u>117,412</u>	<u>167,412</u>	<u>182,285</u>	<u>14,873</u>
Total Charges for Services	<u>9,230,498</u>	<u>9,280,497</u>	<u>9,184,872</u>	<u>(95,625)</u>
Interest and Rents				
Interest	<u>51,413</u>	<u>101,413</u>	<u>164,720</u>	<u>63,307</u>
Other Revenue				
Proceeds from Sale of Assets	22,500	22,500	19,700	(2,800)
Sheltered Workshop	29,805	29,805	43,798	13,993
Oceana ISD	12,000	12,000	12,000	-
Mason / Lake ISD	62,824	62,824	52,153	(10,671)
Miscellaneous	<u>69,263</u>	<u>64,263</u>	<u>53,751</u>	<u>(10,512)</u>
Total Other Revenue	<u>196,392</u>	<u>191,392</u>	<u>181,402</u>	<u>(9,990)</u>
Total Revenues	13,907,493	13,907,493	13,890,477	(17,016)

The notes to the financial statements are an integral part of this statement.

WEST MICHIGAN COMMUNITY MENTAL HEALTH SYSTEM  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES - BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Expenditures	Budgeted Amounts		Actual	Variances Between Actual and Final Budget
	Original	Final		
Health & Welfare - Mental Health				
Current:				
Personnel Costs	\$7,832,654	\$7,562,654	\$7,220,556	\$342,098
Operating Expenditures	6,006,137	6,332,456	6,194,128	138,328
Capital Outlay	65,000	38,000	38,592	(592)
Debt Payments - Principal	-	4,097	4,104	(7)
Debt Payments - Interest	-	8,680	8,673	7
Total Expenditures	<u>13,903,791</u>	<u>13,945,887</u>	<u>13,466,053</u>	<u>479,834</u>
Revenues Over (Under) Expenditures	3,702	(38,394)	424,424	462,818
Fund Balance, October 1	5,141,321	5,141,321	5,141,321	-
Prior Period Adjustment	-	-	496	496
Fund Balance, September 30	<u>5,145,023</u>	<u>\$5,102,927</u>	<u>\$5,566,241</u>	<u>\$463,314</u>

The notes to the financial statements are an integral part of this statement.

***OTHER SUPPLEMENTAL INFORMATION***

WEST MICHIGAN COMMUNITY MENTAL HEALTH SYSTEM  
STATEMENT OF PERSONNEL EXPENDITURES  
FOR THE YEAR ENDING SEPTEMBER 30, 2005 AND 2004

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	<u>Governmental Fund Types</u>	
	<u>General Fund</u>	
	<u>2005</u>	<u>2004</u>
<b>Personnel Costs</b>		
Salaries And Wages	\$5,192,961	\$5,277,355
Fringe Benefits	<u>2,027,595</u>	<u>1,998,417</u>
Total Personnel Costs	<u><u>\$7,220,556</u></u>	<u><u>\$7,275,772</u></u>

The notes to the financial statements are an integral part of this statement.

WEST MICHIGAN COMMUNITY MENTAL HEALTH SYSTEM  
STATEMENT OF OPERATING EXPENDITURES  
FOR THE YEAR ENDING SEPTEMBER 30, 2005 AND 2004

<u>Governmental Fund Types</u>		
	<u>General Fund</u>	
	<u>2005</u>	<u>2004</u>
<b>Operating Expenditures</b>		
Supplies	\$128,141	\$135,506
Building Rent	213,017	210,309
Utilities	151,294	148,465
Repairs and Maintenance	240,844	195,727
Insurance	201,603	201,623
Marketing / Membership	47,157	52,665
Professional Contracts	339,703	504,937
Contractual Services	3,553,480	3,386,434
Other Contractual	114,278	104,769
Board Expenses	8,393	8,987
Consumer Panel	3,043	3,375
Travel and Conferences	178,607	173,172
Client Transportation	99,345	100,387
Client and Other Wages	45,374	41,659
Client Support	70,822	102,922
State Provided Services	601,294	500,666
Capital Outlay (Under \$5,000)	144,520	94,850
Miscellaneous	44,331	43,606
Wraparound and Respite	8,882	21,493
	<u>          </u>	<u>          </u>
Total Operating Expenditures	<u>\$6,194,128</u>	<u>\$6,031,552</u>

The notes to the financial statements are an integral part of this statement.





**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

West Michigan Community Mental Health System  
Ludington, Michigan

We have audited the financial statements of the governmental activities and each major fund of West Michigan Community Mental Health System (the Authority) as of and for the year ended September 30, 2005, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 29, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Authority, in a separate letter dated November 29, 2005.

This report is intended solely for the information and use of the audit committee, management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

*Roslund, Prestage & Company, P.C.*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

November 29, 2005



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MANAGEMENT LETTER

LOCAL AUDIT & FINANCE DIV.

Board of Directors  
West Michigan Community Mental Health System  
Ludington, Michigan

In planning and performing our audit of the financial statements for West Michigan Community Mental Health System for the fiscal year ended September 30, 2005, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated November 29, 2005 on the financial statements of West Michigan Community Mental Health System.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

*Roslund, Prestage & Company, P.C.*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

November 29, 2005

West Michigan Community Mental Health System  
Management Letter

**GASB Statement No. 45**

Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was approved by the GASB in June of 2005. Other postemployment benefits are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they stop working. They include all postemployment healthcare benefits and any other type of benefits that are provided separately from a pension plan. The basic premise of GASB 45 is that other postemployment benefits are earned and should be recognized when the employee provides services, just like wages and compensated absences.

We recommend the Authority consider the effects of GASB 45 on any current or future postemployment benefits packages.

The effective date for the Authority to implement this new standard is for the fiscal year ending September 30, 2009. However, earlier application is encouraged by the GASB.